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## Camp Steps Up Small-Business Tax Push

By John D. McKinnon

House Ways and Means Chairman **Dave Camp** stepped up his push for a tax-overhaul bill on Tuesday, releasing a draft of legislation that could simplify how millions of small firms organize and operate for tax purposes.

For small businesses, the high cost of complying with today's complex tax rules "is a real drag on their economic activity," Mr. Camp (R., Mich.) said at a briefing. "It's a real drag, period."

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The new discussion draft contains several long-discussed changes to reduce complexity and uncertainty for small businesses. It would ease rules on tax accounting methods as well as due dates for business tax returns; create an expanded and simplified deduction for startup expenses; and allow permanent expensing of investments in new property and equipment up to \$250,000.

In the biggest change floated on Tuesday, Mr. Camp's discussion draft offers lawmakers the option of a fundamental overhaul of small-business tax rules. That would end current distinctions between various kinds of small businesses, such as partnerships, limited liability companies and Subchapter S corporations.

All pay taxes on their profits through their owners' individual tax returns. But they face a confusing array of rules for doing so. Ending the distinctions between different types of small-business entities would give many firms more flexibility – particularly Sub S corporations, which currently are subject to relatively rigid federal rules.

In addition, though, small businesses would become subject to federal tax withholding rules, so owners' taxes on profits would be withheld by the firm. That would help address the significant underpayment of taxes by some small business owners under the current rules.

Several proposals in the discussion draft also would seek to end perceived tax abuses of the partnership form under current law. Many of those abuses involve over-allocation of deductions to partners who want to use them to offset other gains.

A second option would streamline existing rules for S corporations and partnerships, without ending the distinctions between them.

The Camp bill isn't being filed immediately in Congress, but instead is aimed at gauging public reaction. Its ideas likely would become part of a tax overhaul that Mr. Camp is planning for this year.

Small business advocates offered cautious applause for the draft.

"Generally, I think it's a thoughtful examination of ways to expand flexibility for S corporations and steps for a more unified and simpler pass-through structure," said **Chris Whitcomb**, tax counsel for the **National Federation of Independent Business**. Officials of the S Corporation Association and the International Franchise Association also praised it.

Small Business Committee Chairman **Sam Graves** (R., Mo.) said: "The average tax compliance cost per employee for small businesses is almost three times the per employee cost for the average large firm. In order to address this inequity, Washington must begin a productive discussion on how to reform the system."

Mr. Camp is under some pressure to make his tax-overhaul effort appealing to small business owners, who constitute a powerful constituency in Washington. Many owners worry that a tax overhaul would mostly help big taxable corporations, and could actually hurt small businesses if it trims back some valuable business tax breaks they receive now. Republicans also must worry about the potential political perception that they are only helping big corporations.

Mr. Camp already has proposed to lower top rates for individuals – including small business owners – as well as corporations to 25%. Tuesday's discussion draft offers more inducements to small businesses.

In general, Tuesday's proposals likely would not change a trend that has strongly favored formation of small businesses in the last 30 years or so. Small businesses now greatly outnumber taxable corporations, and the number of taxable corporations has actually been declining.

Some Democrats, including Obama administration officials, have floated the possibility of imposing corporate-level tax on the largest firms that are organized as small businesses. The small-business area is likely to be one of the more contentious areas, if lawmakers get serious about a tax overhaul.

More on Rep. Camp's proposal:

**Press Release**

**Fact Sheet**

**Discussion Draft Text**  
**Technical Explanation**

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